

Behind the Counter – May 19, 2010

HST – revisited

Several months ago I provided an article on the transition to the HST. Since then there have been some changes to the Transition Rules made by the Ministry of Finance. If you enjoy reading the technical information, these changes can be found in several Tax Information Notices available on the Minister of Finance website at www.fin.gov.bc.ca/rev.htm.

When we talk about transition rules, what we mean is that we need to determine which tax will straddle the July 1, 2010 implementation date for a particular transaction. Will it be the PST or the new HST that should apply? After the implementation date, the HST will follow the current rules of the GST Act which will be slightly amended to change the wording to include the HST.

The basic premise is that if you enter into an arrangement on May 1, 2010 or later and the property or services are not provided until after July 1, 2010, then HST would apply to the transaction if this transaction has been invoiced or has been paid. There is another provision to have some businesses and public service bodies self-assess HST on arrangements entered into between October 19, 2009 and April 30, 2010 if the services are not provided until after July 1, 2010, but the services have been invoiced or have been paid.

The issue arises with the remittance of this early HST. Currently there is no form to be able to remit these amounts so businesses are asked to calculate the amounts and then remit them with their first remittance for July which would become due and payable on August 31, 2010 for those who are currently monthly GST remitters and November for those that are quarterly remitters.

Currently a person can receive a GST rebate on the purchase of a new home valued up to \$400,000 and receive a rebate up to a maximum of \$6,300. With the addition of the BC tax to the HST, the maximum will increase to \$26,250 for a home priced at \$525,000 or above.

If you decide to have your house built, and the construction materials were purchased prior to July 1, 2010, the procedure will be to have the builder give the purchaser a rebate based on the degree of completion prior to July 1, 2010. Two methods have been suggested. One is based on square footage completed while the other is based on fair market value. In BC, the builder would be required to receive a clearance certificate and attach it to the PST transitional application. The buyer must be an individual and this purchase would not otherwise qualify for the HST rebate.

It will be the builder's responsibility to disclose in writing whether the sale price of a home on a contract dated after November 18, 2009 includes the provincial portion of the HST or if there has been a PST

rebate. If there is no disclosure, then the price will be deemed to include the HST and qualify for the rebate.

The kinds of new home construction that would qualify for this improved rebate would be new homes on land, new homes on leased land, mobile or floating homes, qualified shares in a housing co-op and individual construction or substantial (90% or more) renovation.

This rebate is also available for rental units whereby the landlord would need to apply for the rebate. Residential units will continue to be exempt from HST so if the builder takes over a new home and rents it out, the builder is required to self assess the HST on the land under the change of use rules. The maximum rebate per lot or site is \$8,663. By self assessing, the builder can then apply for the entire rebate. If the builder decides to live in the unit to receive the rebate, it must be for at least one year, otherwise the rebate will be clawed back. The builder is assumed to be able to recover the HST through the reporting of the income tax credits made on construction supplies purchases.

The kinds of rental units that will qualify for the rebate are single unit house, condos and duplexes, mobile and floating homes, units in multiple unit housing developments such as apartment buildings or long term care facilities, multiple units that may be on leased land and single or multiple units of a co-op.

There are always exceptions to the rule and with the new HST, provisions for grandfathering certain contracts have been instituted. For example, if the purchase or sale agreement was made before November 18, 2009, but possession happens after June 2010, no HST applies, only the GST will apply. Normally the grandfathering will only apply to single unit homes being purchased by individuals. Homes in this category may qualify for the PST transitional new housing rebate or the BC new housing rebate or the BC new rental housing rebate in addition to the GST new housing rebate and the GST new residential rental property rebate.

The construction segment of the GST has always been a complicated part of the Act, so if you are considering any of these kinds of transactions, please make sure that you do your research and speak with your advisors.

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